

Central Intelligence Agency



Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

4 May 1984

MEXICO: ADJUSTING FOREIGN POLICY [REDACTED]

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Summary

President de la Madrid has avoided his predecessor's confrontational diplomacy and downplayed international issues at home, in large part because of his conservative background, familiarity with the US, and desire for continued US economic assistance. Foreign Minister Bernardo Sepulveda also has presented a more subdued style than his predecessor, Jorge Castaneda. Longstanding invitations for de la Madrid to visit Nicaragua and Cuba have been ignored--probably for fear of offending Washington. Recent steps, including financial aid to Argentina and the President's trip to South America, signal de la Madrid's intention to look beyond more parochial interests to deal with economic and political issues in a hemispheric setting. [REDACTED]

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As a result of his trip, De la Madrid succeeded in strengthening ties with key South American governments and took advantage of heightened regional concern about the situation in

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Central America to give a boost to the Contadora process. None of the major debtor countries favors a cartel at this juncture, but Mexico's efforts to promote debtor unity in order to seek more favorable terms is striking a responsive chord. Argentina in particular might take the lead in pushing for a more aggressive stance if the renegotiations with bankers collapse.

[redacted]

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Moral and political support for Nicaragua's Sandinistas remains the keystone of Mexico's Central American policy. The de la Madrid government continues to supply non-military assistance to revolutionary groups from El Salvador, Guatemala, and Honduras. For example, the official political--but not the military--headquarters for the Salvadoran insurgents is still located in Mexico City, and radical leftist groups from elsewhere in Latin America are allowed to proselytize, raise funds, and mount anti-US demonstrations on Mexican territory. In sum, we see little likelihood of fundamental change in Mexico's activist foreign policy, although tactical and stylistic adjustments are being made.

[redacted]

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Recent Mexican Actions in Central America

Nicaragua and the Sandinistas. Although economic backing for the Sandinistas has been reduced somewhat, moral and political support for Managua remains the keystone of Mexico's Central American policy. Continuing frequent contact with Sandinista leaders and public rejection of foreign military and political intervention in Nicaragua reflect the depth of Mexico City's commitment to the survival of the Sandinista regime. Moreover, despite the potential damage to the efforts of the Contadora Group, Mexico was the only Contadora member to endorse the recent Sandinista resolution in the UN Security Council condemning the mining of Nicaraguan ports. Indeed, according to the US Embassy, Mexico's permanent representative in the UN actively worked to promote the resolution.

[redacted]

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Under President Lopez Portillo, Mexico City reinforced its political support with economic assistance. In 1981-82, Mexico was Nicaragua's largest official hard currency lender. Loans and supplier credits totaled \$250 million in 1981 and \$145 million in 1982, including 100 percent financing for all the oil it sold to Nicaragua, loan guarantees, direct aid, and supplier credits for Mexican goods. Additionally, in 1982 Mexico became Nicaragua's sole petroleum source, supplying about 15,000 b/d, after the

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Venezuelans ceased exporting because of Managua's mounting payments arrears. [REDACTED]

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Since taking office, however, President de la Madrid has gradually curtailed his predecessor's largesse. In mid-1983, in an apparent effort to use its economic leverage to persuade Managua to adopt a more moderate course, Mexico renegotiated contracts, cut back oil shipments and tightened payment terms. Apparently because of Managua's inability to meet new terms, oil shipments are now running two-thirds below earlier levels.

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[REDACTED] As long as other suppliers--primarily the Soviets--appear willing to pick up a major part of concessional oil shipments to Nicaragua, we estimate Mexican deliveries through July will not exceed contracted levels of 9,500 b/d. [REDACTED]

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Although Lopez Portillo's thesis that restricting Mexican aid would drive the Sandinistas into the Soviet camp clearly has less merit with de la Madrid, Mexico still refuses to shut Managua off completely. [REDACTED]

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[REDACTED] By agreeing to Managua's recent request for agricultural advisers, de la Madrid also signaled his intention to maintain technological and trade links. [REDACTED]

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Insurgent Groups. The desire to avoid a direct confrontation with the United States, calm the concern of conservative elements of the polity, and be viewed internationally as peacemakers, keeps Mexico's governing elite fastidious about limiting assistance for revolutionary groups to nonmilitary support. Such nonmilitary support is being provided to groups from El Salvador, Guatemala, and Honduras. Since de la Madrid took office, we have no evidence that the government has supplied Central American leftists with arms or other military aid. [REDACTED]

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Mexico City appears to be reducing its hospitality to all Central Americans, including insurgent groups, in part because of concern that if large numbers of Central Americans entered Mexico they could overburden domestic resources at a time when the administration's harsh austerity program already holds the risk of increasing domestic dissension and fostering radicalism. According to recent US Embassy reporting, efforts by the Salvadoran insurgent alliance to move elements of their

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organizational structure from Managua to Mexico City faltered because of lack of cooperation from Mexican officials. The guerrillas' official political headquarters remains in Mexico, however, and insurgent groups still are allowed the freedom to proselytize, raise funds, and mount anti-US demonstrations on Mexican territory. [REDACTED]

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Mexico's Relations with Key South American Governments

President de la Madrid's recent trip to South America--his first outside the country since taking office--underscores the increasingly important role Mexico's interests as a major debtor will play in shaping its foreign policy. By calling on the South American leaders he visited to coordinate their efforts in dealing with national economic problems, de la Madrid sought to increase regional solidarity--and negotiating power--for a long term solution to Latin America's enormous debt repayment problems. The timing of the trip--one month before a scheduled visit to Washington--also suggests that de la Madrid hoped to gain support for peace efforts in Central America. [REDACTED]

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Dealing with the Debt Issue. During the trip, de la Madrid called on his fellow Latin debtors to form a united front in debt negotiations, not in order to declare a debt moratorium but rather as a means of seeking more favorable terms. The Argentine rescue package, conceived by Mexico's finance minister and sold to other Latin leaders by de la Madrid, according to US Embassy [REDACTED] was presented as an example of the responsible results achievable through Latin solidarity. Facing a heavy debt burden and further rescheduling exercises during his term, de la Madrid realizes that maverick actions by any debtor could damage Mexico's interests. Mexico City benefited immediately from the Argentine package because it calmed credit markets, and bankers could then proceed with the completion of Mexico's 1984 jumbo loan. [REDACTED]

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Mexico City also worked toward greater regional cooperation on debt issues in order to encourage creditor nations, particularly the US, to take a broader view of the debt problem. In several speeches, de la Madrid castigated the developed countries for exacerbating Latin problems through high interest rates and trade barriers. For example, every percentage point rise in world interest rates adds about \$700 million to Mexico's debt burden. De la Madrid also called for revitalization of regional economic mechanisms to promote Latin interests. [REDACTED]

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So far, the South American debtors have consistently opposed a cartel, and we have no evidence that such an effort was discussed during de la Madrid's trip. According to the US Embassy, Brasilia believes that a cartel would be unrealistic because each Latin American country has its own unique problems. The US Embassy in Caracas reports that Venezuela favors realistic debt renegotiations with lenders, and President Lusinchi is on record as opposing any debtors group or joint effort to reschedule debt. Argentina might be more receptive to such a proposal if the renegotiations with bankers collapse. Nevertheless, despite tough rhetoric in dealing with bankers last month, President Alfonsin ultimately was willing to cooperate with lenders. [REDACTED]

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We estimate that South American debtors will be able to manage the liquidity strains that are likely to persist in 1984. In our view, the region's debtors will remain committed to honoring external obligations and sustaining necessary adjustments, progress will be made in refinancing old credits, and liquidity strains will ease. In that event, we believe headway will have been made toward easing the debt crisis. [REDACTED]

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In the near-term, Argentina is likely to be under the greatest strain, and renewed intransigence by Buenos Aires in negotiating its debt could cause a financial impasse. This would heighten prospects that Argentina might cease all payments, thereby effecting an undeclared moratorium. In our judgment, Brazil would also probably resort to radical actions later this year if bankers ceased cooperating with its rescue program. Any unilateral moves by these two regional leaders would be likely to tempt Chile, Peru, and Venezuela--all encountering strong domestic pressure to engineer recovery--to follow, probably causing the rescue programs to collapse. [REDACTED]

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Seeking Support on Central America. During his trip to South America de la Madrid took advantage of growing concern in the region over escalating violence in Central America to try to resuscitate the flagging Contadora process. None of the four governments with which he held talks--Colombia, Argentina, Brazil, and Venezuela--altered its policy, but the Mexican President succeeded in focusing attention on what he contends is the destabilizing role of external actors, including the US. [REDACTED]

De la Madrid's effort to promote the theme of isolating Central America from "East-West" tension sparked the most outspoken response from Colombia's President Betancur, who publicly blamed the US, the Soviet Union, and Cuba for sabotaging the Contadora Group. [REDACTED]

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In Venezuela, de la Madrid solidified an already warm relationship with President Lusinchi and probably helped reinforce his host's unease about aspects of US policy toward Central America. A senior Venezuelan official told the US Embassy that the trip by Foreign Minister Morales to Washington in mid-April was aimed at eliciting "genuine support" for Contadora. Morales' willingness to present a strident demarche to Honduras regarding its support for anti-Sandinista groups further underscored Venezuela's frustration with the lack of progress by the Contadora Group. [REDACTED]

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In our view, however, these moves do not represent a softening of Venezuela's policy toward Central America. [REDACTED]

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[REDACTED] Moreover, Lusinchi recently praised the US response to the Venezuelan demarche on Contadora and told Ambassador Shlaudeman that there appeared to be renewed US support for a regional settlement. [REDACTED]

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In both Brazil and Argentina de la Madrid gained endorsement from the host governments for Contadora, and a Mexican diplomat told US officials that President Alfonsin had expressed an interest in attending a future Contadora summit meeting as an observer. The Contadora Four have consistently demonstrated a reluctance to broaden participation, and we are aware of no evidence that such a move was discussed during de la Madrid's trip. Nevertheless, the Venezuelans are probably not alone in worrying that the Contadora process may be irretrievably stymied. If the Group fails to make significant progress in the months ahead many of the participants will likely begin casting about for new Latin American-sponsored mechanisms to prevent violence in Central America from spreading. [REDACTED]

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Economic Ties

Following up on proposals to increase intraregional trade made at the Latin American Economic Conference in Quito last January, several bilateral trade and financial agreements were signed or discussed during de la Madrid's trip. Mexican officials, who believe that Latin America is their natural long term market, have been distressed at the decline of non-oil sales to the region. To avoid the use of scarce dollars, Mexico City set up reciprocal credit lines for \$50 million with Brazil and Argentina and for \$20 million with Colombia. Brasilia and Mexico City also agreed to modifications to their existing credit arrangement to clear up past payment problems. [REDACTED]

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De la Madrid initialed agreements to purchase Argentine grain and oilseeds and to import Colombian coal in exchange for Mexican manufactures. Tariff rates were also reduced on most Colombian exports to Mexico. Venezuela and Mexico agreed to increase bilateral trade particularly in petroleum industry equipment and technology. They also announced their intention to renew the San Jose oil accord, under which they provide oil to several Caribbean and Central American nations at concessional rates. While the credit terms will not be hardened, the two countries will try to encourage recipients to invest the credits in projects that will provide sales opportunities for Mexico and Venezuela. [REDACTED]

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We believe Mexican oil provides very little leverage with the Brazilian Government and virtually none with Argentina. Although the proportion of Brazil's crude and product imports furnished by Mexico was about 8.5 percent last year, Brazil would have little trouble replacing these supplies from other sources under current market conditions. Argentina is almost self-sufficient in energy and would have little trouble supplementing its needs from non-Mexican sources. [REDACTED]

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